

Employer Ascendancy and Macro Performance

Board of Visitors: 4/29/03



Daniel J.B. Mitchell
and



Christopher L. Erickson

Note: *A Work in Progress*



Comments and
suggestions welcome



A Wagnerian Moment



**Die Walküre:
Siegmond meets Sieglinde**

*Says who he isn't,
rather than who he is*



A Wagnerian Moment

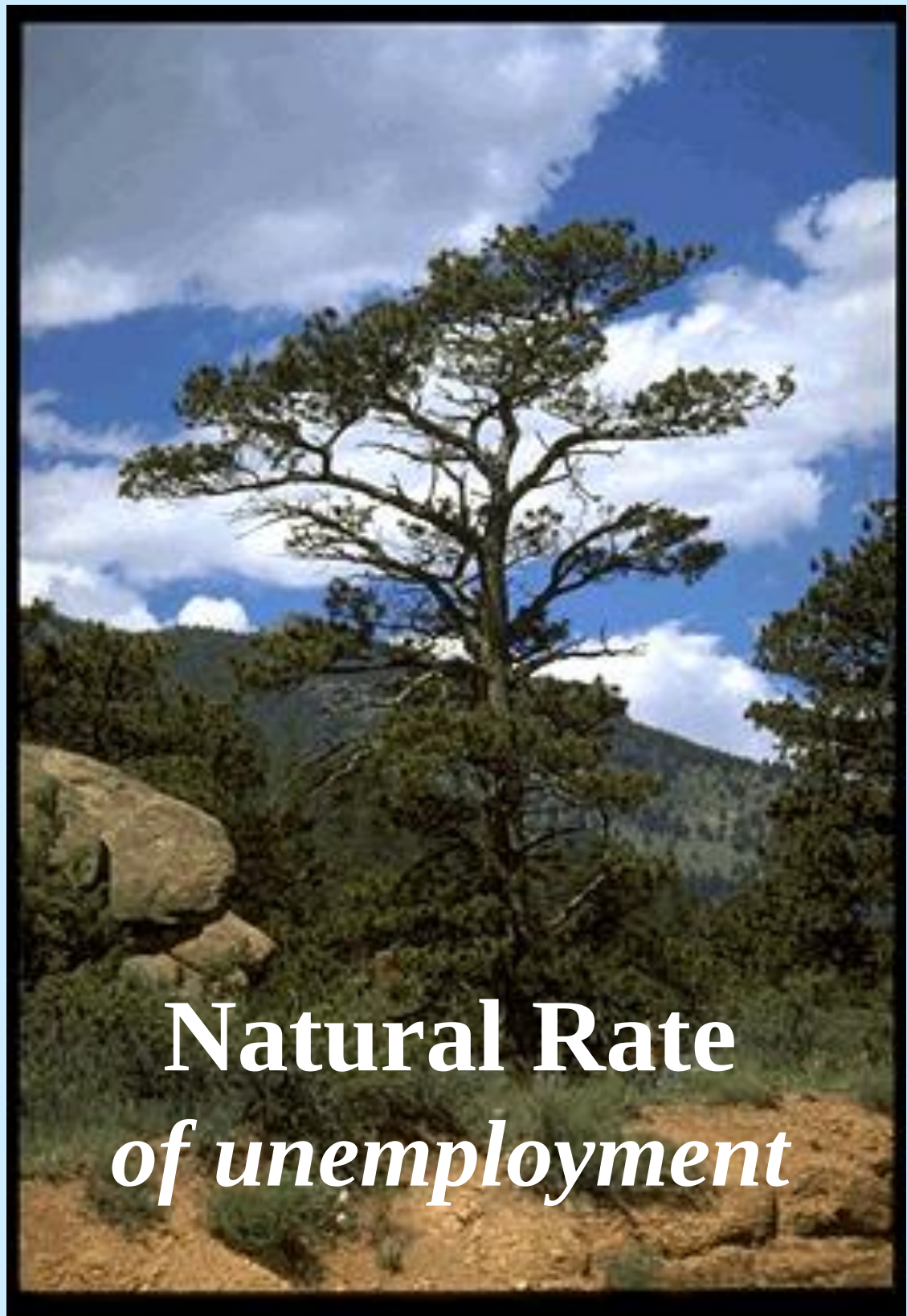


Not saying business cycle is dead.

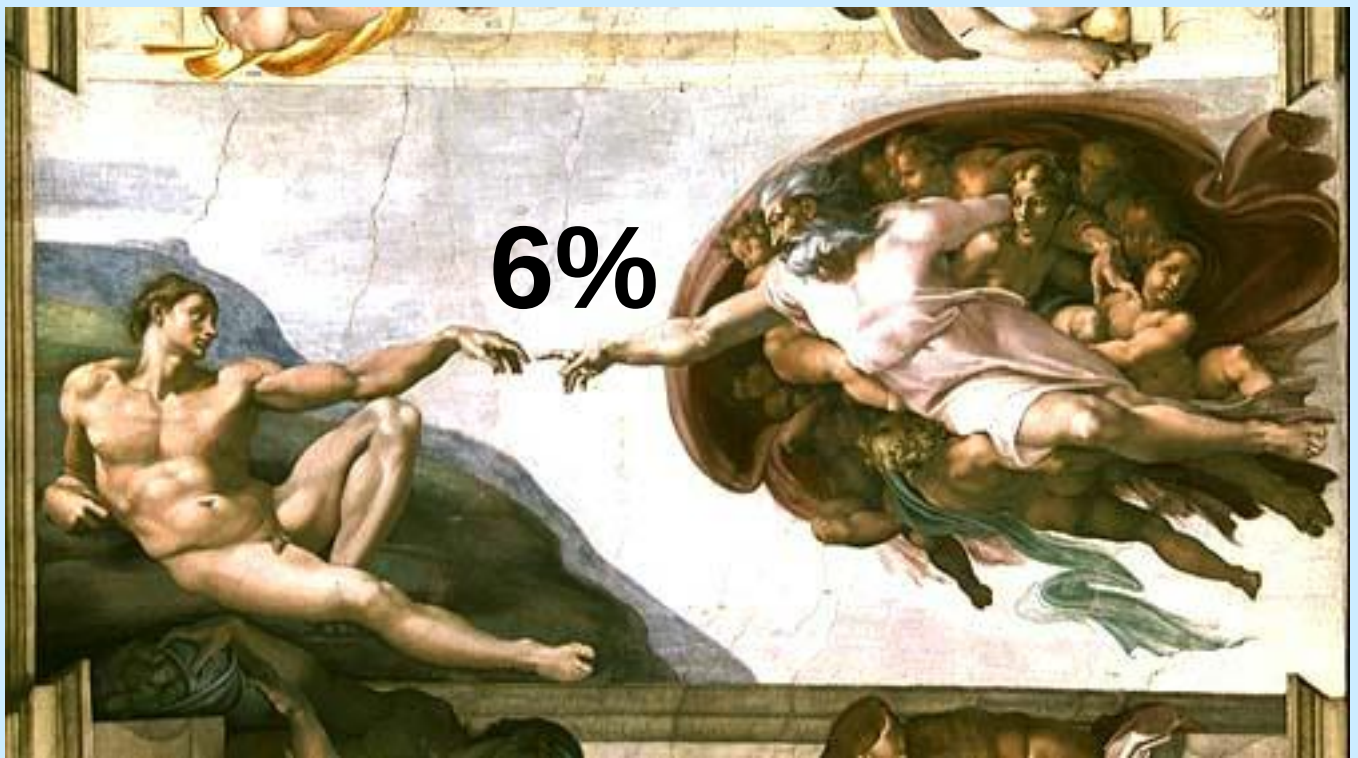
**Not even saying all recessions will
henceforth be mild.**

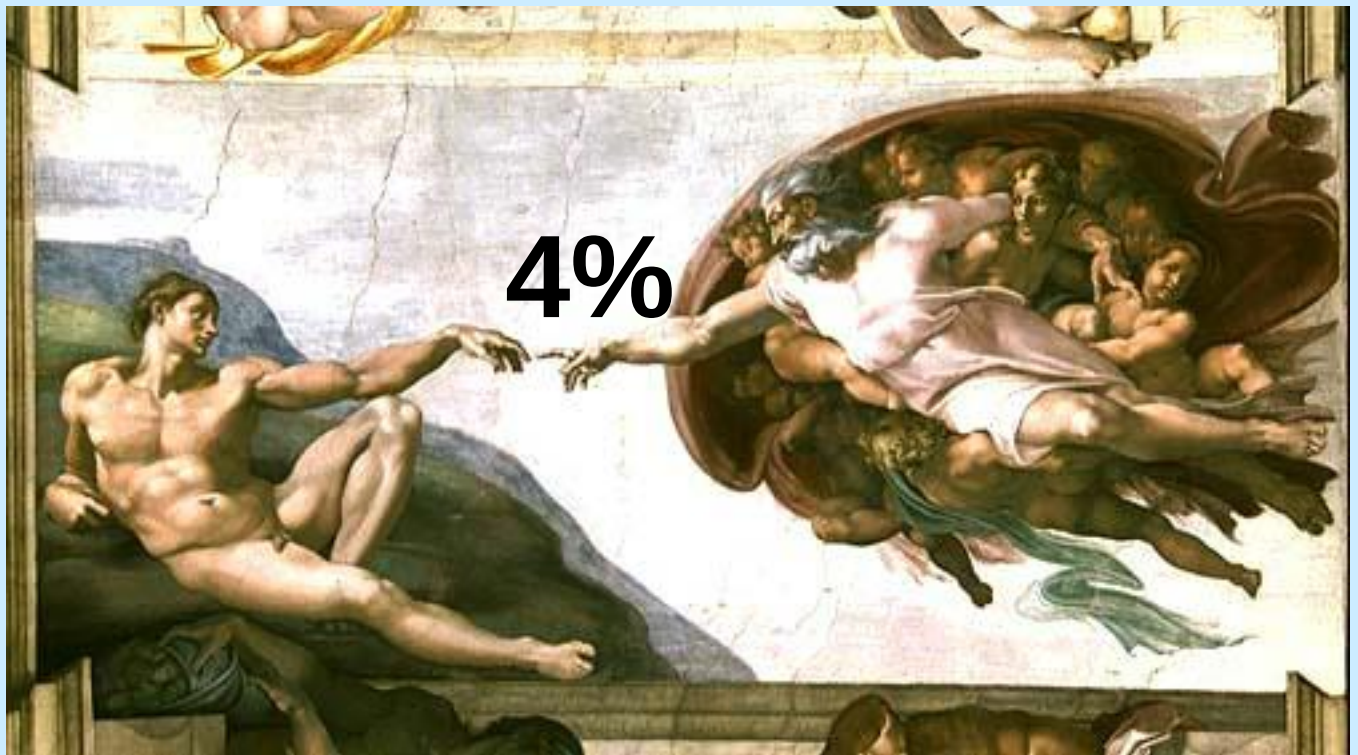
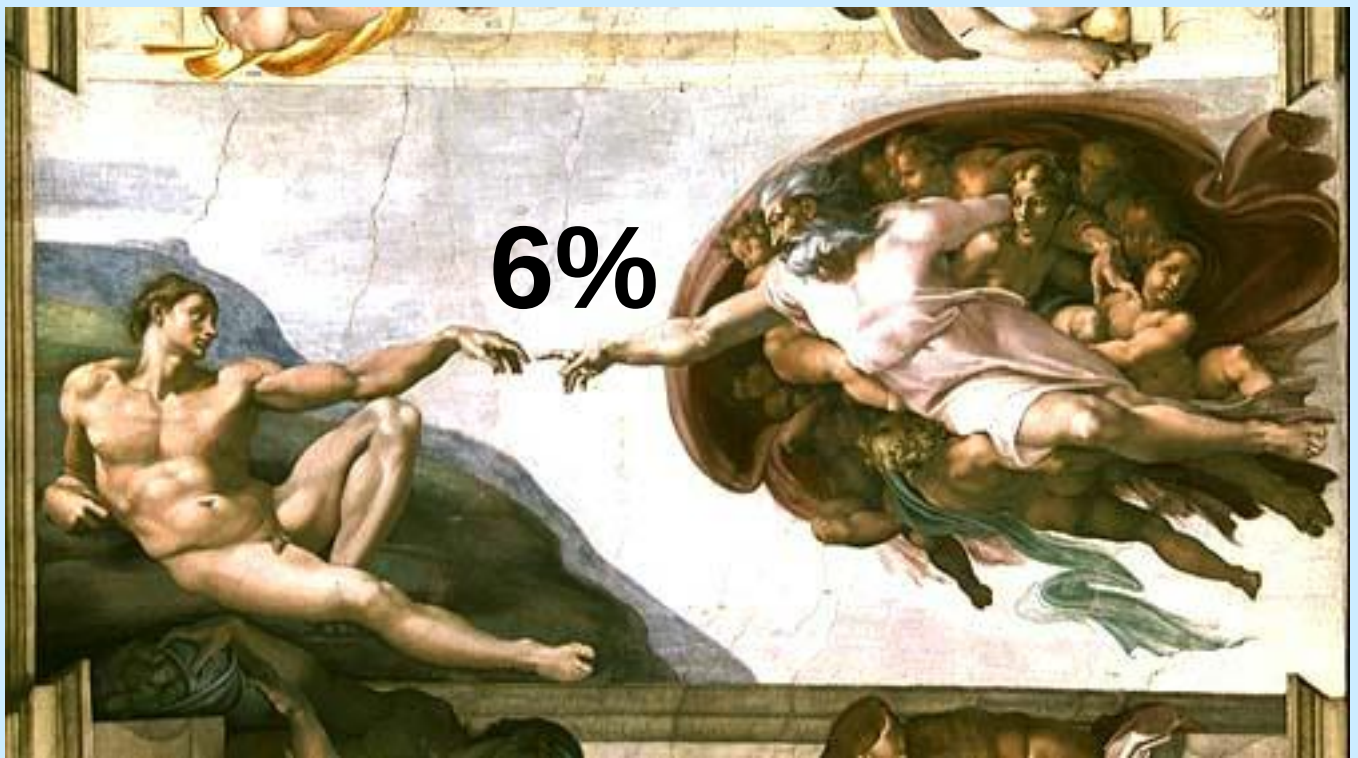
**Not saying that good macro policy
doesn't matter and that all changes in
macroeconomics are due to changes in
the labor market**





Natural Rate
of unemployment

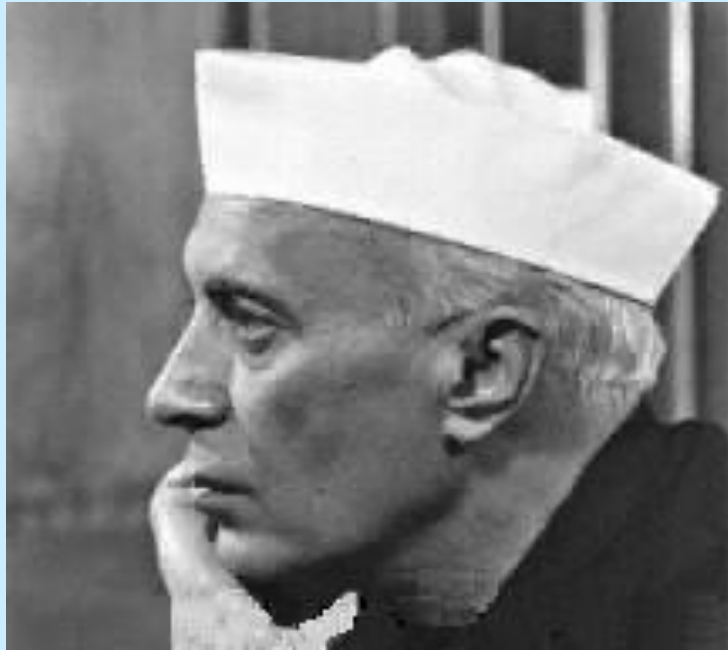




Non-Accelerating Inflation Rate of Unemployment (NAIRU)

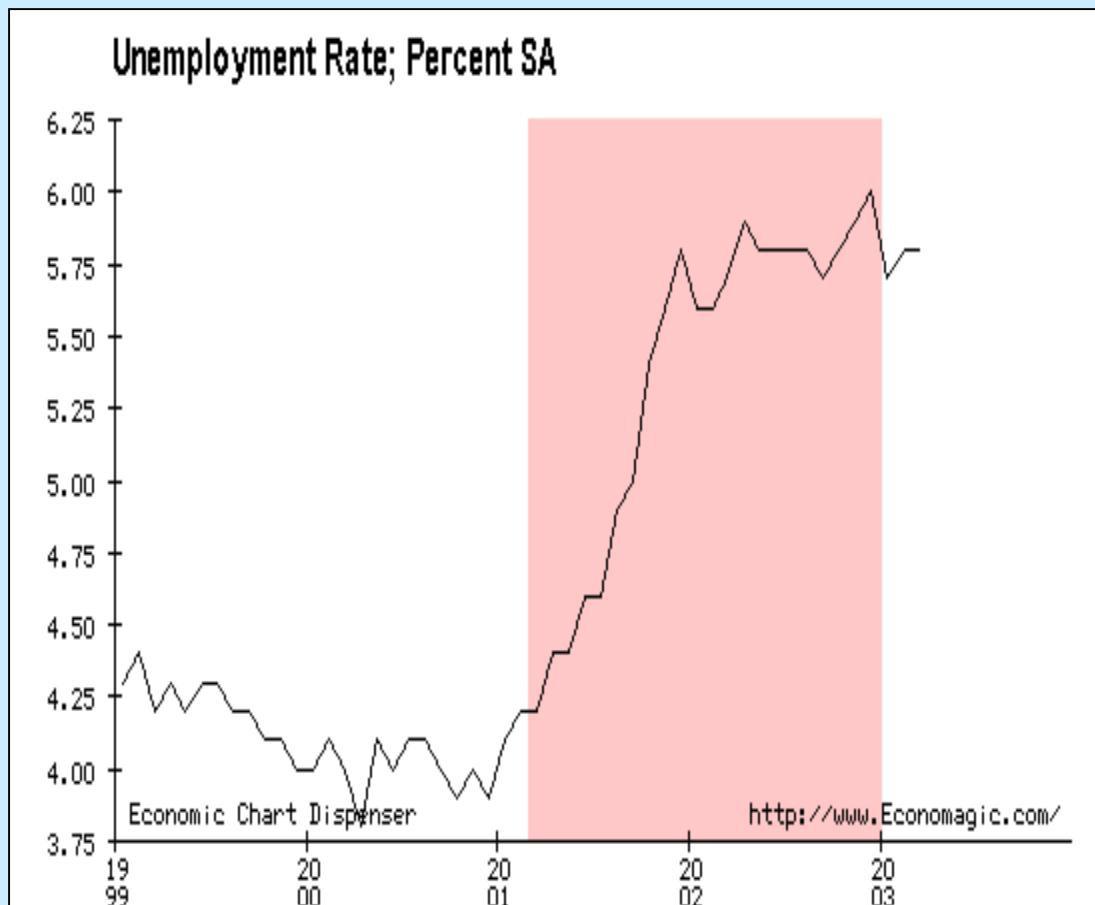


**Not to be confused
with...**



Nehru

Puzzling facts about the 1990s and early 2000s in the US

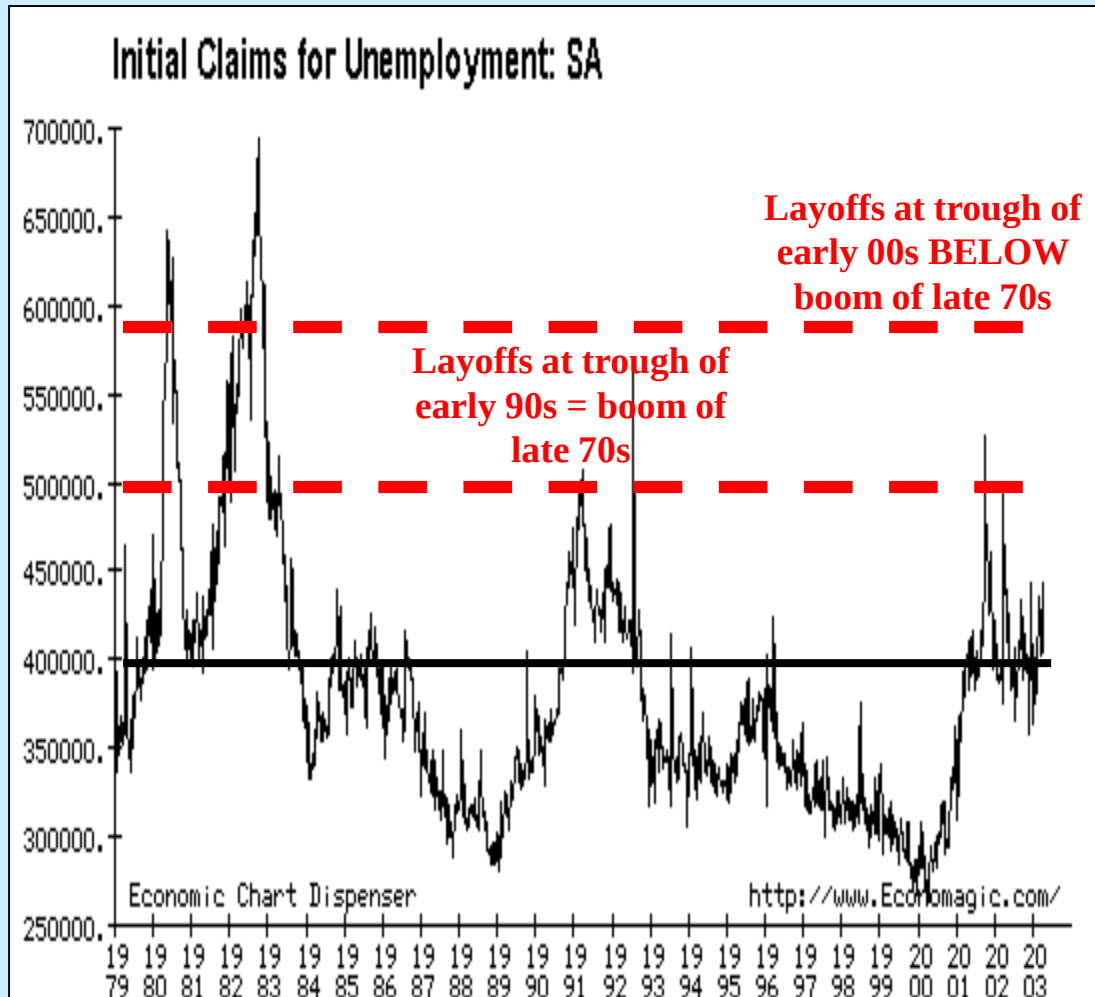


**Relatively mild increase in
unemployment in recession.**

**Rate seems to have stabilized at
around 6%.**



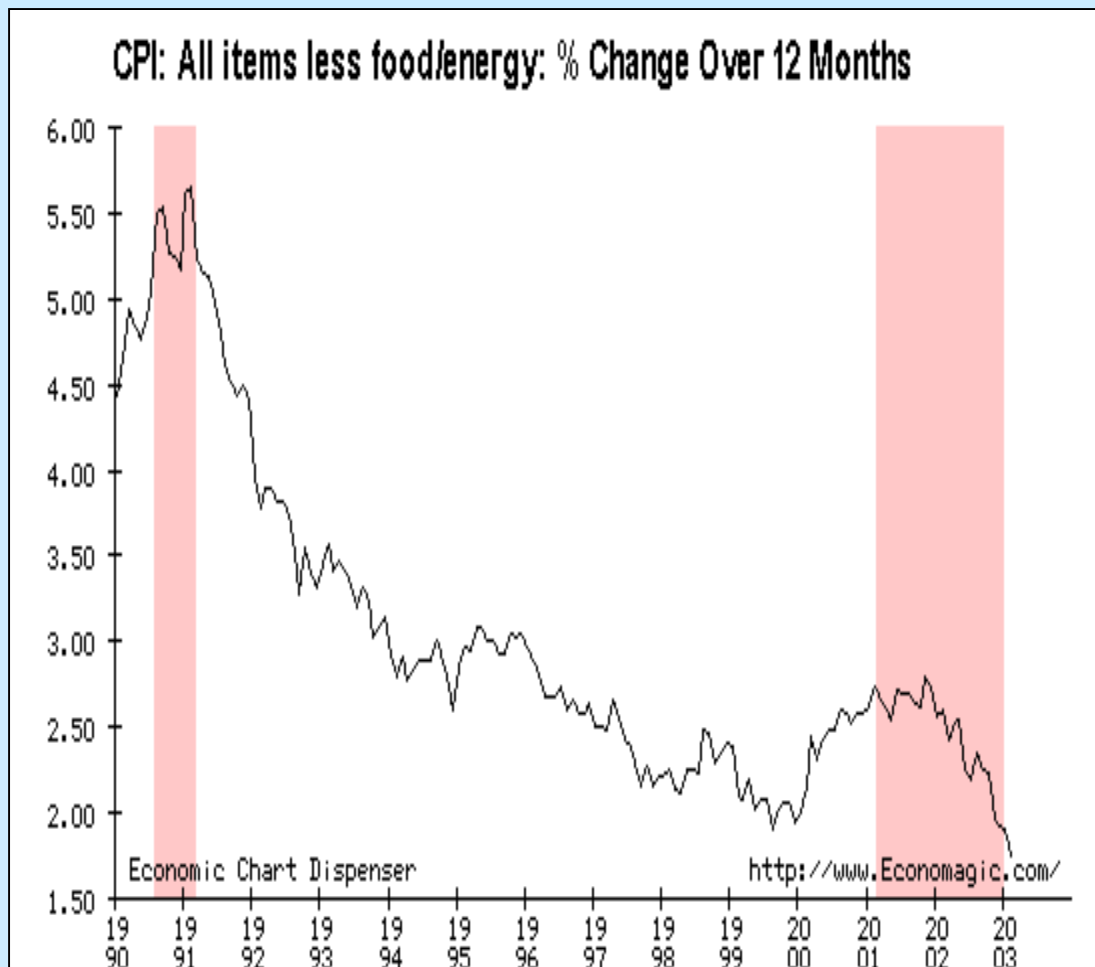
Puzzling facts about the 1990s and early 2000s in the US



**Low layoffs in recession
floating now at around
400,000 per week**



Puzzling facts about the 1990s and early 2000s in the US



**Core price inflation also
reached very low levels in 90s
boom and started to rise only at
top of boom**



Richard Freeman and James Medoff



What Do Unions Do?
(Basic Books: 1984)

Monopoly “face”

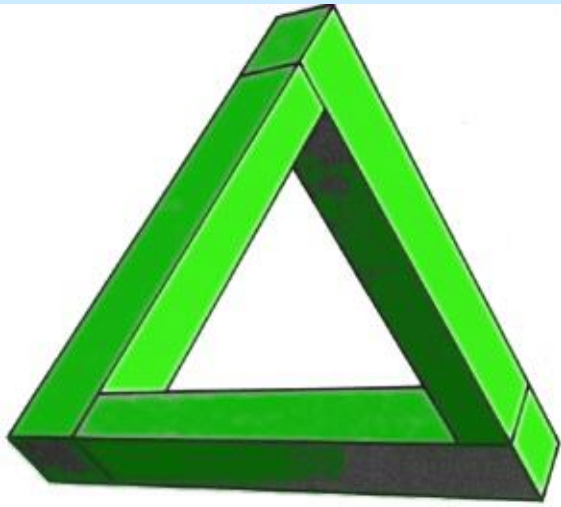
Voice “face”

Bruce Kaufman’s Challenge:
Do “something” on unions and
macroeconomics in response
to what F&M said back in
1984.



Mitchell: *Unions, Wages, and Inflation* (Brookings: 1980)

Problems with Kaufman's request:



1) No one writes about this topic any more since union sector is now roughly one tenth of the private sector. No recent literature to review.

2) F&M didn't say much about the macro side in their book. Books was mainly micro.



*That's the
story!*



LEONARDO DA VINCI
1452-1519
FLORENCE, ITALY
MUSEO DELLE SCIENZE E DELLE ARTI
FLORENCE, ITALY

***Macro impact of
deunionization!***



Monopoly



Seller Power

Monopoly



**Byproduct is “shortage”
of customers because
price is “too” high**

Monopoly



**Byproduct is “shortage”
of customers because
price is “too” high**

What is a
“competitive”
labor market?



Monopsony (in the labor market)



**Company
store**

**Company
town**



Buyer (Employer) Power

Monopsony (in the labor market)



NursingShortage.Info



Crisis :

DIAGNOSIS:
SHORTAGE
The past, present, and future of the registered nurse workforce

**Byproduct: “Shortage” of
employees because wage is “too”
low**

Monopsony (in the labor market)



Factoid: In current financial crisis, UCLA Medical Center has threatened layoffs EXCEPT for nurses.

Suggestion: In a downturn, starting from a shortage is a cushion

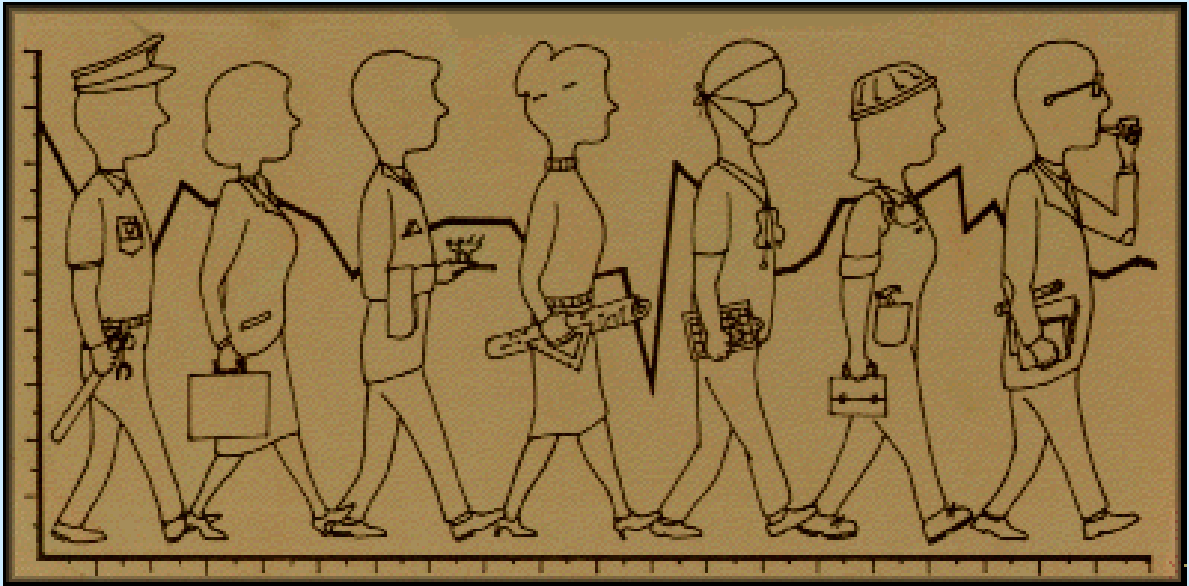
Today's Agenda



- Argue that changes in the labor market associated with decline of unions help explain recent puzzling macro facts
- Note that macroeconomic policy makers in 1980s and 1990s did not develop a clear model linking macro facts to labor market changes
- Argue that a “competitive” labor market is in fact monopsonistic
- Argue that monopsony, combined with downward wage rigidity, has a stabilizing effect on macroeconomy
- Point to some costs imposed by monopsony ●

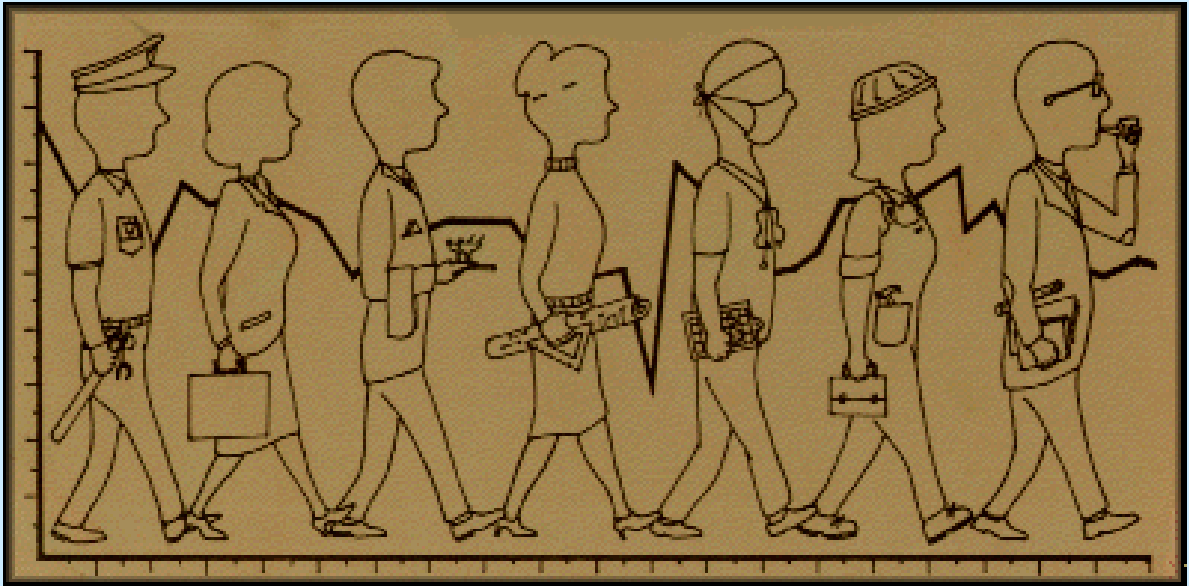


Labor and Macro?



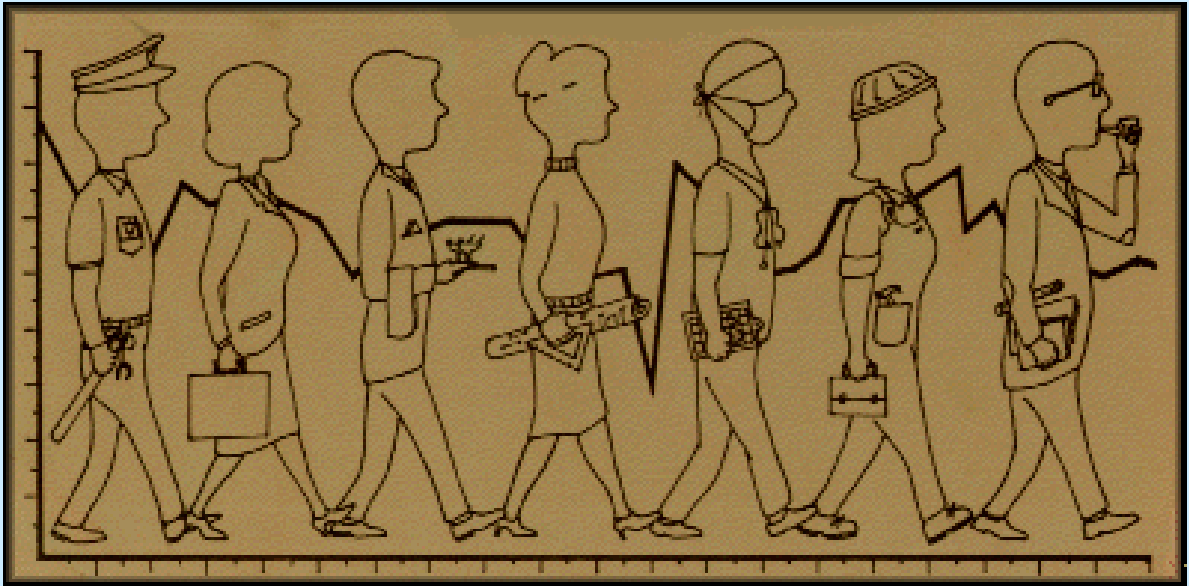
Did the labor market shape the “new economy” of the 1990s or was it computers and the Internet?

Labor and Macro?



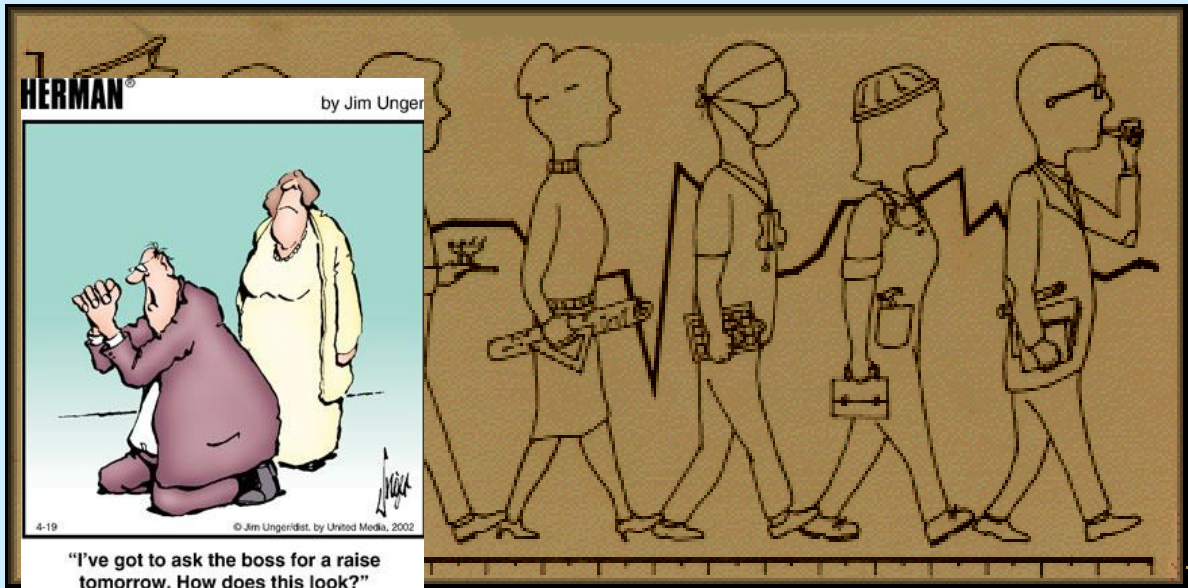
Did the labor market shape the “new economy” of the 1990s or was it clever fiscal and monetary policy?

Labor and Macro?



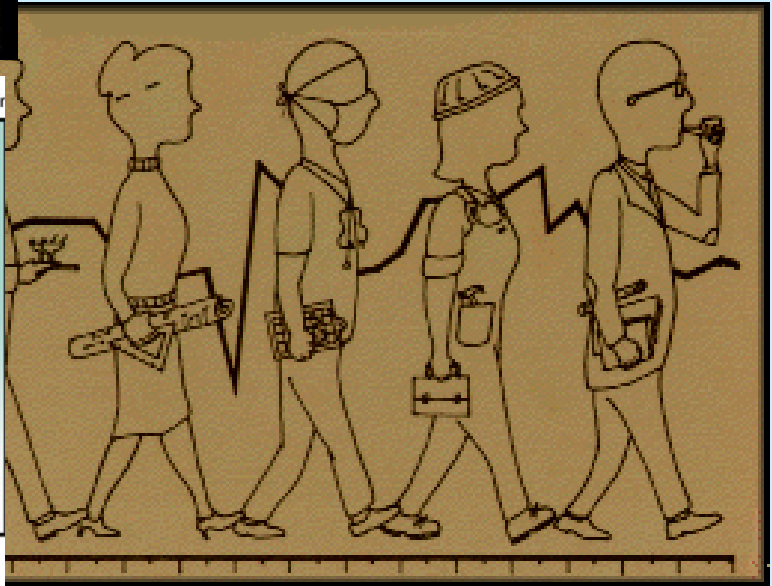
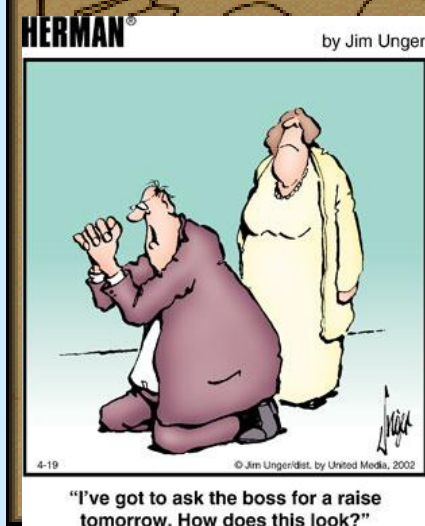
Did the labor market shape the “new economy” of the 1990s or was it “globalization”?

Labor and Macro?



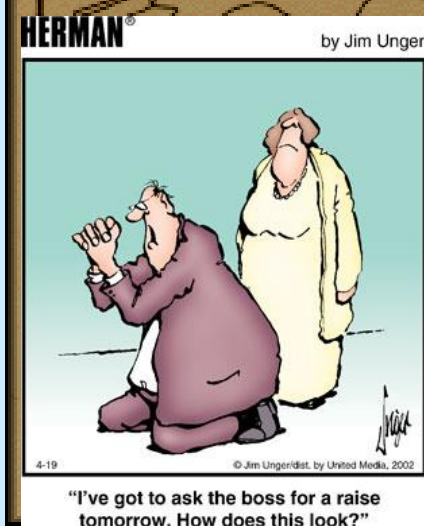
Did the erosion of unions and employer ascendancy in the US influence the new economy of the 1990s?

Labor and Macro?



**If union decline
and employer
ascendancy
played a role,
what were the
costs?**

Labor and Macro?



How did those making US macro policy interpret union-sector developments?

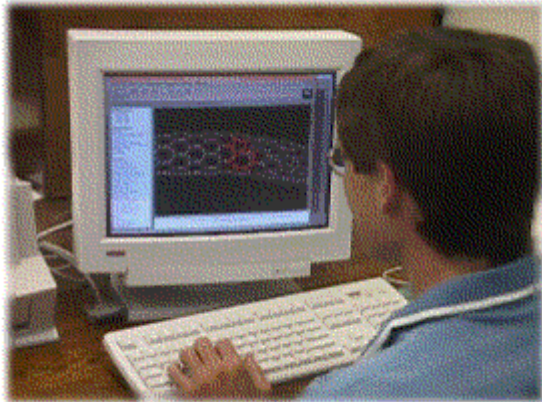


Labor and Macro?



Key proposition:
Labor markets
with monopsony
produce macro
benefits, albeit at
a cost

Info Source: *Federal Reserve Policy*



FRB: Federal Open Market Committee - Netscape

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Bookmarks Location <http://www.federalreserve.gov/fomc/> What's Related

 The Federal Reserve Board

Federal Open Market Committee

The Federal Open Market Committee consists of twelve members: the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and, for the remaining four memberships, which carry a one-year term, a rotating selection of the presidents of the eleven other Reserve Banks. The FOMC holds eight regularly scheduled meetings per year to direct the conduct of open market operations by the Federal Reserve Bank of New York in a manner designed to foster the long-run objectives of price stability and sustainable economic growth. The FOMC also establishes policy relating to System operations in the foreign exchange markets.



[Meetings calendar, statements, and minutes](#) | [Federal funds rate](#)

[Transcripts](#) | [Beige Book](#) | [Members](#)

[Federal Open Market Committee reports on the Freedom of Information Act](#)

Schedule of Meetings, Statements, Minutes, and Transcripts

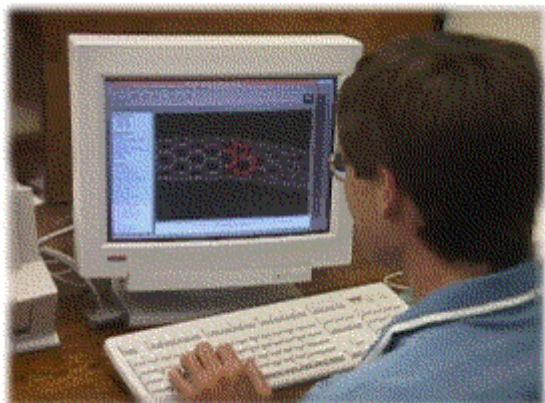
Meetings: Dates for the eight regularly scheduled meetings held by the FOMC each year are shown in the calendars below. (Dates on which votes were taken between regularly scheduled

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Federal Reserve Policy



CHAIRMAN GREENSPAN. *You realize that the labor unions would say that was awful: you say it's wonderful.*

MR. SYRON. *That's right, but we are not in an AFL-CIO meeting. And they have a little different view than we do on what is considered wage inflation as well.*

Federal Open Market Committee
transcript of February 6-7, 1990

Info Source: *Administration Policy*



**Martin
Feldstein**

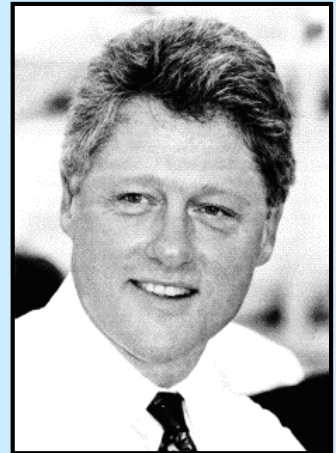


**Murray
Weidenbaum**



**William
Niskanen**

Administration Policy

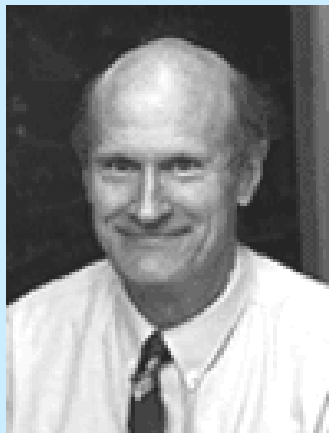
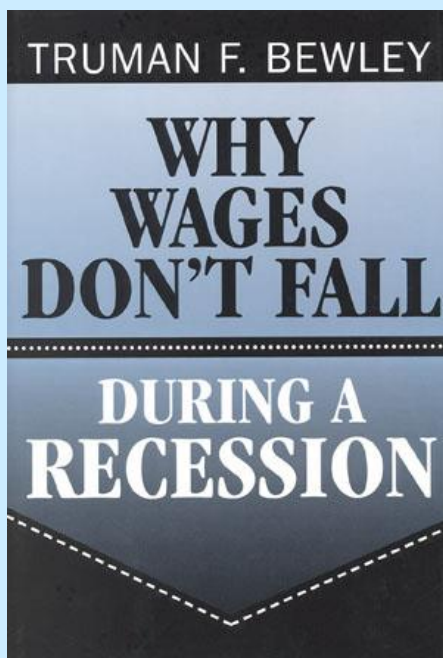


After 1996

Monopsony



**Tied to
downward
nominal wage
rigidity**



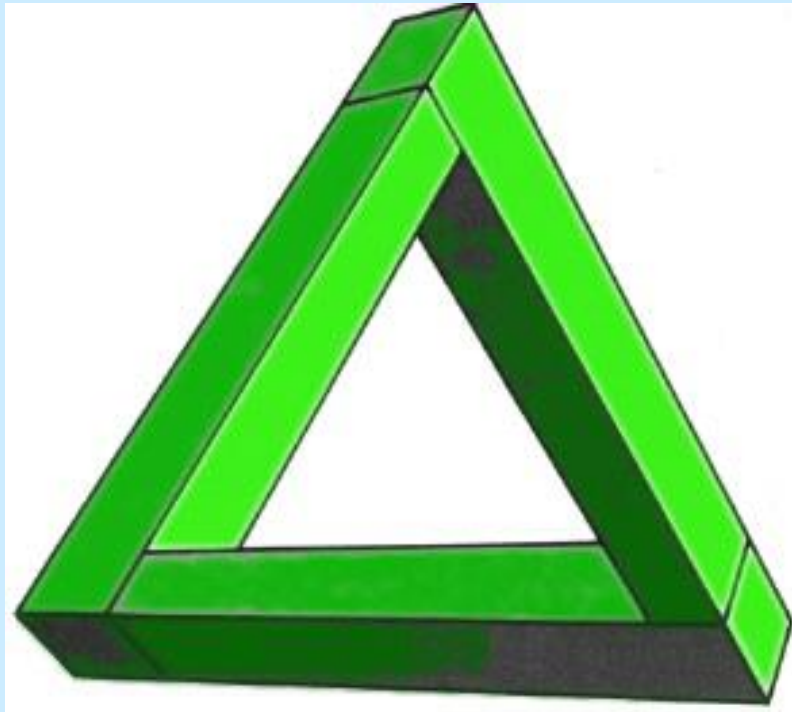
Macroeconomy becomes like UCLA with regard to its nurses



Factoid: In current financial crisis, UCLA Medical Center has threatened layoffs EXCEPT for nurses.

Suggestion: In a downturn, starting from a shortage is a cushion

Paradox

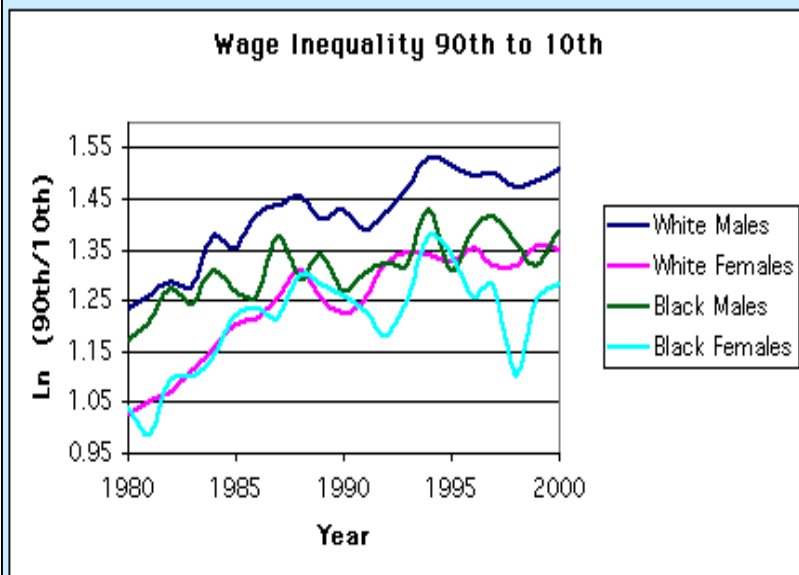
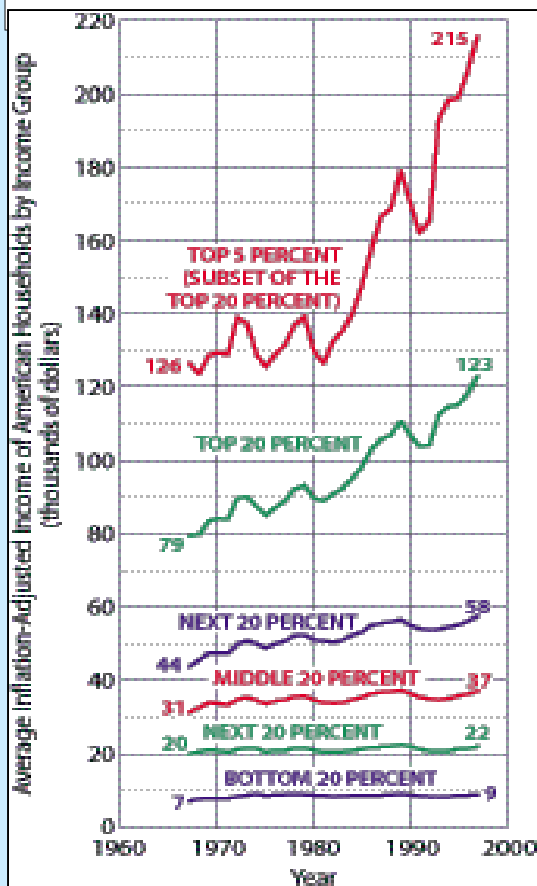
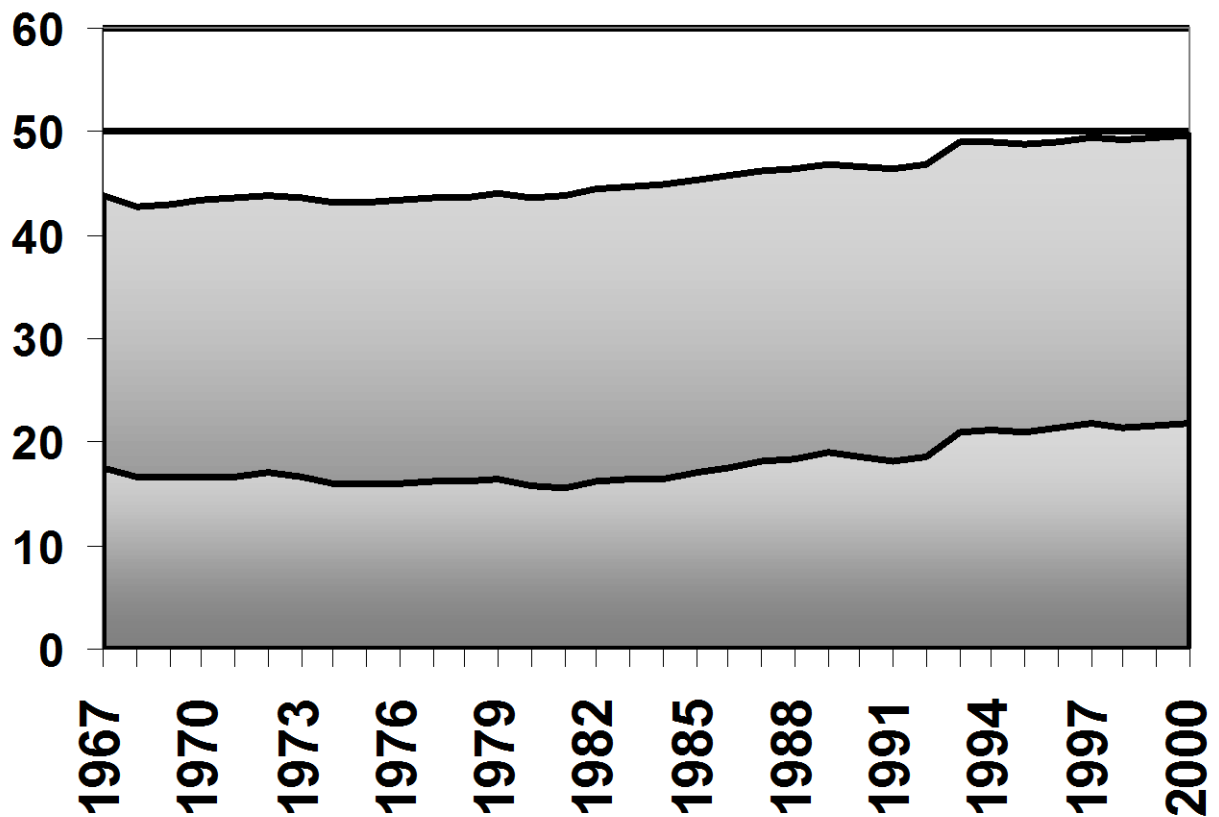


**Downward nominal wage
rigidity stabilizes employment
(within a range)**

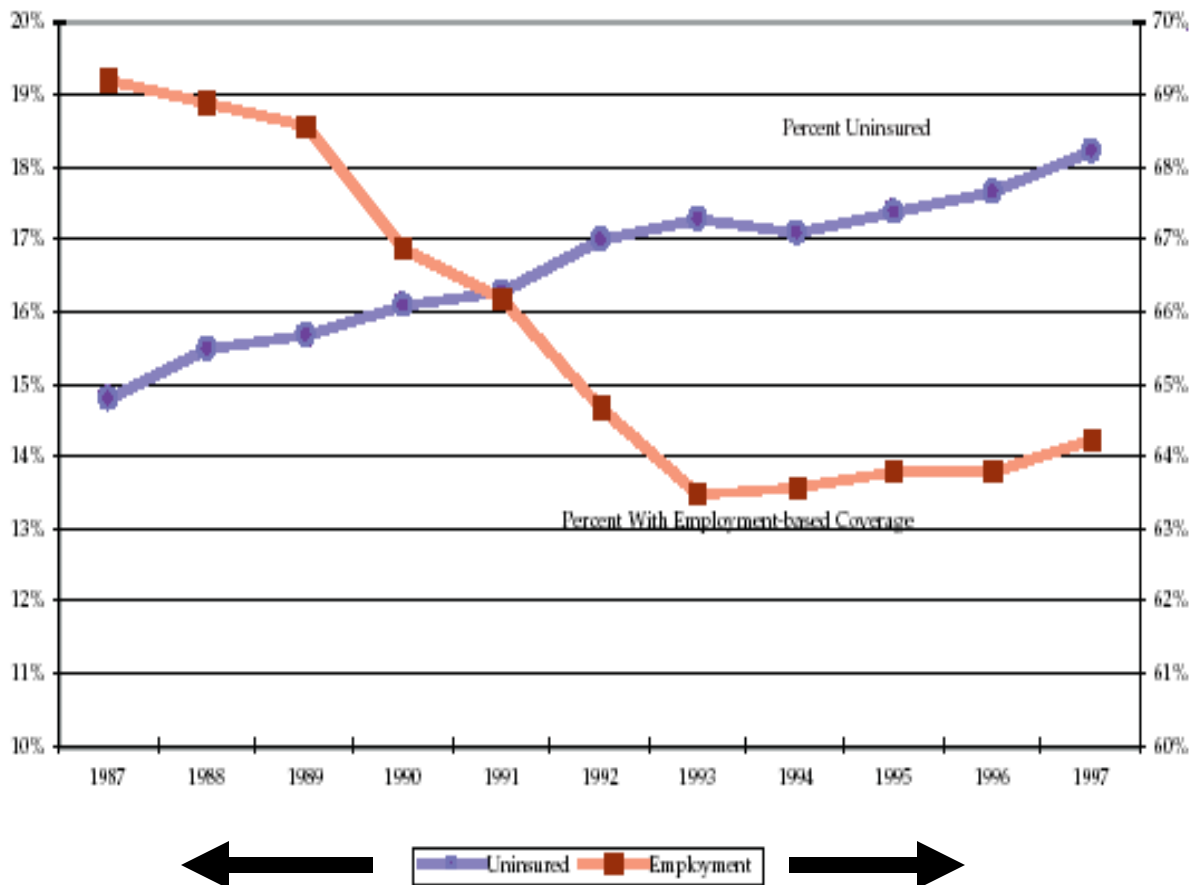
Monopsony Implications

- *Better macro performance*
- *Reduced employee voice*
- *Questions of effect on income distribution and inequality*
- *Issue of whether employment relationship is really a mutual bargain which then leads to govt. intervention/mandates*
 - *Reduced coverage of health insurance and defined-benefit pensions*
 - *More contingency* ●

Percent of Income Going to Top 5% and Top 20% of Households



The number of uninsured Americans increased by 36% during the last decade

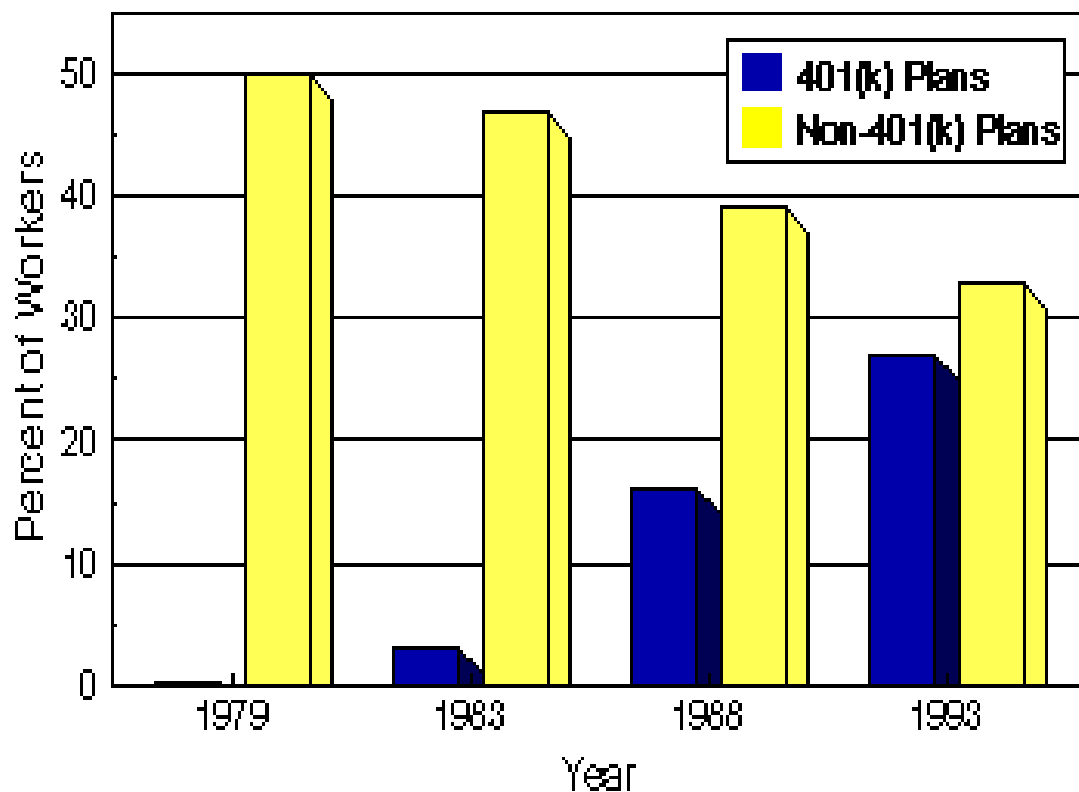


**Source: William S. Custer “Health Insurance Coverage and the Uninsured,” Health Insurance Association of America,
<http://www.hiaa.org/pubs/custerreport.pdf>**



"Before I forget, Detrick, here's the dental plan."

Erosion of Defined-Benefit Pension Plans in 1980s



Source: www.dol.gov/pwba/programs/opr/bluebook/b_.htm

Still loose ends

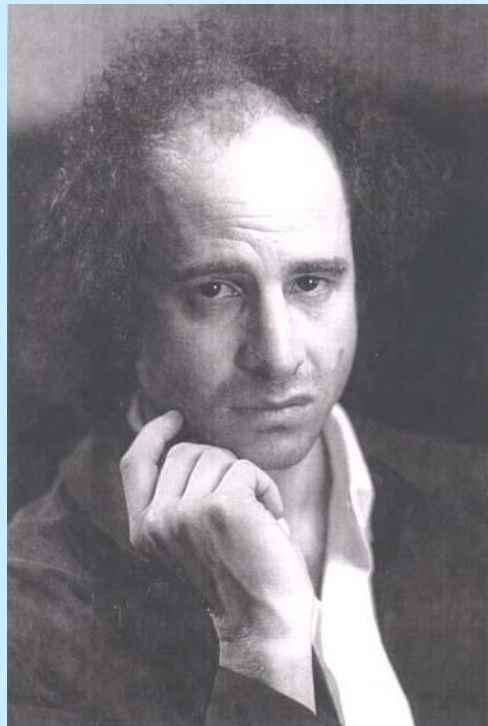


We don't claim to explain everything



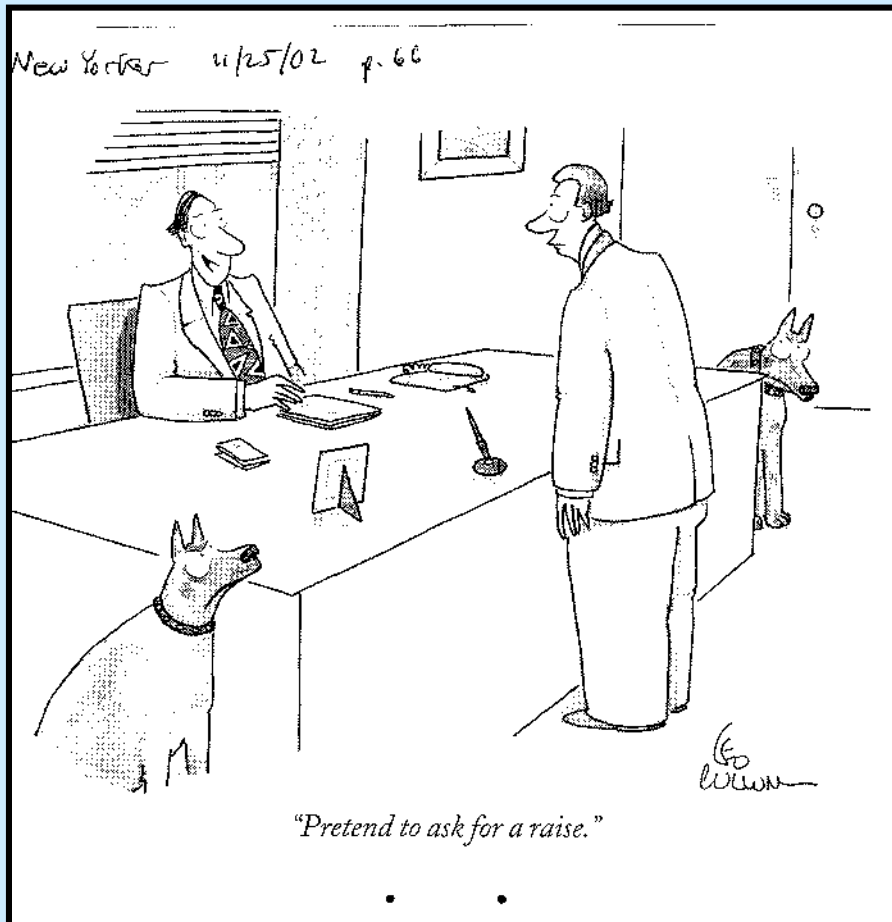
**“You can’t have
everything. Where
would you put it?”**

Stephen Wright



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and



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